London Borough of Barnet - Brent Cross South

Communication to bidders - Financial sub-criteria to question 3b - Contract Reference: 700606

1 INTRODUCTION

1.1 The purpose of this communication is to provide a response to questions concerning the evaluation of financial responses and the potential for variant financial bids.

1.2 Should you have any queries about the content of this communication, please contact the London Borough of Barnet through the procurement portal in the normal way.

2 VARIANT FINANCIAL BIDS

2.1 Each bidder may submit a maximum of one variant financial bid.

2.2 It is a core requirement of a variant financial bid that the Council's land value is underwritten (but not paid) at the point of drawdown of the land once the other conditions precedent have been satisfied.

2.3 Further guidance on submission and evaluation of variant bids is contained the separate communication dated 19th December 2014

3 GUIDANCE AND SUB-CRITERIA

3.1 In submitting its compliant response and any potential variant response, bidders should note the manner in which the responses will be evaluated and scored by reference to the table below. A cross reference to the relevant part of question 3b is contained in the second column to assist bidders..

3.2 In responding to question 3b, bidders are expected to explain how the figures have been arrived at, how the proposal will be in the Council's long term interest and how it will help meet the wider corporate objectives.

No	Sub-criteria and cross reference to 3b	Further guidance to bidders	Further guidance on scoring definition	Weighting % (each scored out of 5*)
1	(Ref. 3b 1,2,3) For each of the three scenarios [set out in question 3b] what is the bidder's proposed: a. profit on cost? b. development management fee? c. apportionment of the surplus?	The Council's evaluation model requires the completion of 'green' cells which will set out the return to the Partner and in the case of surplus, a return to the both the Partner and the Council. Bidders' are required to reflect the three scenarios described. Some Bidders have suggested a profit on cost is not a preferred route. On this basis bidders are invited to note, for scenario b only, this can be accommodated within a Compliant bid by changing cells B37, B38 and B39 on the 'Assumptions Summary' tab to Green and inputting desired returns whilst fixing B51 to 'zero%'.	In scoring the Bidders' submissions, the contents of the green boxes will be applied to Capita's base case model (previously supplied to bidders) and the Council will assess the outcome of the assumptions on the Council's total potential receipt. For all boxes left yellow (including B37, B38 and B39), the Council will apply its own assumptions and this will be common to all submissions. A score of '0' to '5' will be awarded based on the extent that the proposal reflects a reasonable rate of return for the Partner and financial outcome for the Council given the assumed level of development risk as indicated by the bidder's wider response. Note that the 'risk' of a financial proposal being achievable will be assessed and considered by the Council as part of the evaluation. The Council will also take into account how realistic/appropriate one or more hurdle rates of return are.	40% (shared between 1 and 2)
2	(Ref. 3b 1,2,3) Which elements of the response to Q1 are fixed (green cells) or flexible (yellow cells)	Green cells are treated as fixes and will be taken forward in to a contract with the Council. Bidders are provided the opportunity to change yellow 'profit' cells in	The Evaluation Panel will consider the presence of new 'fixes' and the level (and the likelihood that the 'fix' will be an effective one).	

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		the model to 'green' and therefore enhance certainty for the Council. Whilst bidders may not be intending to actually build out the entire scheme, a green cell will represent an underwriting of the maximum return which the bidder or a third party would require, and which will be used to inform the land valuation.		
3	(Ref. 3b 1,2,3) What is the developer's rationale/justification for the level of profit and how robust are its proposals?	Bidders are expected to explain the reasoning for their desired margins. It is expected that this explanation may include reference to lenders' requirements, Board approval processes, money markets and shareholder commitments for example	Bidders are to provide detailed justification for its proposal and the Council must be satisfied that the proposal is robust in order to attract a higher score.	60% (shared between 3-7)
4	(Ref. 3b 1,2,3) How does the approach taken maximise the Council's potential land value?	The Council recognises that there is a balance between maximising land value and its appetite for risk. It is the Council's minimum requirement that its land value be agreed once the remaining conditions precedent have been satisfied prior to construction on any given phase. The Council requires that its land be valued at the point that is it drawn down by the JVCo. Bidders must recognise the investment that the Council and its existing partners at Brent Cross North have made to date, and will continue to make both within and without the redline of the Brent Cross South project area. i.e The bidder's submission should recognise that the JVCo will not be solely responsible for any increase in land value at Brent Cross	Bidders are to acknowledge the assistance to a project appraisal by deferring capital receipts. A proposal that would increase the Council's exposure to risk or has the potential to reduce land value will attract a lower score.	

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		South over time. The approach should recognise that the principle set out in the heads of terms – that the Council's land value is not unfairly burdened by a disproportionately high infrastructure cost or community benefit, and that where development costs relate to more than one phase of development, a fair and reasonable proportion shall be allocated to a phase based on the proportionate gross development value of that phase compared to others. In the compliant bid, the Council has prescribed in its model those elements that would be assumed to attract a 'profit on cost'. In a variant bid, bidders should describe how its alternative approach would be in the Council's interest.		
5	(Ref 3b 5, 6) How does the approach taken incentivise the developer to invest in the project?	The Council's proposal is that the Partner's return is based 'on cost' to ensure there is no incentive to withhold investment or reduce specification. If returns are not to be 'on cost' an explanation of what incentive to invest will be required.	The Council is seeking to reward a proposal that rewards investment.	
6	(Ref 3b 2) In a successful phase, what would a typical cascade of returns look like?	Bidders are invited to describe the process for the distribution of profit and land value and whether any party takes a priority at each stage.	Where capital receipts are to be taken, the Council will reward a process that sees the land value (or equivalent) paid first, followed by the Developer's priority	

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			return and then surplus being distributed equally. An alternative proposal must be clearly justified and in the Council's interest. Where a capital receipt is to be converted in to an income stream of equivalent value, the source of the revenue is to be clearly identified and linked to specific properties or commercial interests. Where the Council's income is derived from an equity stake in a vehicle/property that it is not the sole owner, it will expect returns to be distributed on at least a *pari passu* basis	
7	(Ref 3b 4) Caps and collars: is there potential to cap expenditure at pre-agreed levels and to protect LBB against over-spend?	Bidders are invited to consider whether it is in the Council's interest to introduce caps and collars to the appraisal model. These parameters would describe maximum and minimum figures which could generate more certainty for the Council when valuing its land.		

*in line with previously published guidance for scoring of 0-5